

Message Text

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ORIGIN EUR-25

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-07 PA-04 RSC-01 PRS-01 SP-03 SS-20

USIA-15 EB-11 COME-00 TRSE-00 OMB-01 SIL-01 SAM-01

SAJ-01 IO-14 /129 R

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APPROVED BY:EUR:NE:MR. BUELL

EUR:NE:MR. ANDREWS

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R 262313Z APR 74

FM SECSTATE WASHDC

TO AMEMBASSY REYKJAVIK

C O N F I D E N T I A L STATE 086308

E.O. 11652: GDS

TAGS: PFOR, IC

SUBJECT: POSSIBLE FALL OF ICELANDIC GOVERNMENT

1. AMBASSADOR KROYER CALLED AT DEPARTMENT APRIL 25 TO REPORT TO NE DIRECTOR GIST OF TELEPHONE CONVERSATION HE HAD WITH FRIEND "VERY CLOSE TO THE PRIME MINISTER." ACCORDING TO FRIEND, THE TWO PEOPLES' ALLIANCE MINISTERS IN THE GOVERNMENT HAD RELUCTANTLY REACHED CONCLUSION THEY COULD NO LONGER OPPOSE PRIME MINISTER'S PROPOSAL THAT LEGISLATION BE SUBMITTED IN THE ALTHING DECOUPLING WAGE SCALES FROM PRICES. IF SOMETHING IS NOT DONE ABOUT INDEXATION, THERE WILL BE 14 PERCENT WAGE INCREASE ON JUNE 1, RESULTING ONLY RPT ONLY FROM INCREASED PRICE OF IMPORTED FUEL. HOWEVER, THE TWO PA MINISTERS WERE TURNED DOWN BY THEIR OWN PARTY EXECUTIVE. PRIME MINISTER JOHANNESSEN IS DETERMINED TO PUSH AHEAD WITH HIS PROPOSAL WITHOUT PA SUPPORT SINCE HE IS CONVINCED BEYOND DOUBT THAT SOMETHING MUST BE DONE TO CONTROL AN INFLATION THAT IS NOW SO RAMPANT THAT IT THREATENS TO WRECK ICELAND'S
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BASIC INDUSTRIES SUCH AS FISH PROCESSING.

2. PRIME MINISTER EXPECTED TO BRING THIS LEGISLATION TO THE FLOOR EARLY WEEK OF APRIL 29. SINCE THE PA MEMBERS CANNOT SUPPORT IT, HE WILL NOT GET THE VOTES. HE WILL THEREUPON SUBMIT HIS RESIGNATION TO THE PRESIDENT. KROYER THINS JOHANNESSON WILL BE ASKED TO CARRY ON AS CARETAKER IN A MINORITY GOVERNMENT AND UNDER THESE CIRCUMSTANCES MAY HAVE THE AUTHORITY TO CALL FOR IMMEDIATE ELECTIONS, WHICH HE IS EXPECTED TO DO IF HE CAN. KISSINGER

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